



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
MONTGOMERY COUNTY FISCAL COURT**

**Fiscal Year Ended 2001**

**EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MONTGOMERY COUNTY FISCAL COURT**

**Fiscal Year Ended 2001**

The Auditor of Public Accounts has completed the Montgomery County Fiscal Court audit for fiscal year ended 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

**Notes Receivable:**

Notes receivable balance as of June 30, 2001 was \$381,322.

**Debt Obligations:**

Total bonded debt principal as of June 30, 2001, was \$675,639. Future collections of \$1,017,812 are needed over the next 13 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$336,000 as of June 30, 2001.

**Report Comments:**

- The county should improve internal controls over insurance coverage and comply with state and federal tax laws.

**Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable B. D. Wilson, Montgomery County Judge/Executive

Members of the Montgomery County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Montgomery County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Montgomery County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Montgomery County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001, of Montgomery County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting described above.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable B. D. Wilson, Montgomery County Judge/Executive  
Members of the Montgomery County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2002, on our consideration of Montgomery County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Montgomery County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Should Improve Internal Controls Over Insurance Coverage And Comply with State And Federal Tax Laws

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
February 20, 2002



MONTGOMERY COUNTY OFFICIALS

Fiscal Year Ended 2001

**Fiscal Court Members:**

B.D. Wilson	County Judge/Executive
F.M. Sponcil	Commissioner
Tom Prewitt	Commissioner
Lloyd Cassidy	Commissioner

**Other Elected Officials:**

Paul Cowden	County Attorney
Everett Dwayne Myers	Jailer
Judy Long Witt	County Clerk
Connie Curtis	Circuit Court Clerk
Fred Shortridge	Sheriff
Jeff Garrison	Property Valuation Administrator
Wallace Johnson	Coroner

**Appointed Personnel:**

Brenda Mapel	County Treasurer
Kaye Rogers	Occupational Tax Collector
Brenda Jackson	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

MONTGOMERY COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$ 24,944	
Investments	1,300,000	

Jail Fund:

Cash	1,000	
------	-------	--

Payroll Revolving Account - Cash	49,274	\$ 1,375,218
----------------------------------	--------	--------------

Special Revenue Fund Type

Finneran Fund:

Cash	\$ 10,873	
Investments	75,000	

Health and Civic Center Fund:

Cash	14,126	
Investments	150,000	

Revolving Loan Fund:

Cash	173,182	
Investments	50,000	

Notes Receivable (Note 4)	381,322	854,503
---------------------------	---------	---------

Other Resources

General Fund Type

General Fund:

Amounts to be Provided in Future Years for Annex		
Capital Lease Obligation (Note 6)		336,000

Jail Fund:

Amounts to be Provided in Future Years for Jail		
Participation Agreement (Note 5)		675,639

Total Assets and Other Resources	\$ 3,241,360	
----------------------------------	--------------	--

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY  
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
ARISING FROM CASH TRANSACTIONS

June 30, 2001

(Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Capital Lease Obligation (Note 6)	\$	336,000	
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Jail Fund:

Jail Participation Agreement (Note 5)		675,639	
---------------------------------------	--	---------	--

Payroll Revolving Account		<u>49,274</u>	\$ 1,060,913
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Special Revenue Fund Type

Revolving Loan Fund:

Deferred Revenue (Note 4)			381,322
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Fund Balances

Unreserved:

General Fund Type

General Fund	\$	1,324,944	
Jail Fund		<u>1,000</u>	1,325,944

Special Revenue Fund Type

Finneran Fund	\$	85,873	
Health and Civic Center Fund		164,126	
Revolving Loan Fund		<u>223,182</u>	<u>473,181</u>

Total Liabilities and Fund Balances			<u>\$ 3,241,360</u>
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The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

MONTGOMERY COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 6,398,913	\$ 3,853,154	\$ 1,061,021	\$ 1,143,603
Other Financing Sources:				
Transfers In	<u>1,213,561</u>	<u>200,000</u>	<u>625,260</u>	<u>295,136</u>
Total Cash Receipts	<u>\$ 7,612,474</u>	<u>\$ 4,053,154</u>	<u>\$ 1,686,281</u>	<u>\$ 1,438,739</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 6,483,742	\$ 3,082,409	\$ 1,538,425	\$ 1,414,145
Other Financing Uses:				
Transfers Out	1,213,561	1,013,561	200,000	
Jail Participation Agreement:				
Principal	29,517			29,517
Annex Capital Lease Obligation:				
Principal	<u>63,151</u>	<u>63,151</u>		
Total Cash Disbursements	<u>\$ 7,789,971</u>	<u>\$ 4,159,121</u>	<u>\$ 1,738,425</u>	<u>\$ 1,443,662</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (177,497)	\$ (105,967)	\$ (52,144)	\$ (4,923)
Cash Balance - July 1, 2000*	<u>1,976,622</u>	<u>1,430,911</u>	<u>52,144</u>	<u>5,923</u>
		**		
Cash Balance - June 30, 2001*	<u>\$ 1,799,125</u>	<u>\$ 1,324,944</u>	<u>\$ 0</u>	<u>\$ 1,000</u>

\* Cash Balance Includes Investments

\*\* Does not agree to prior year ending balance due to prior year voided checks.

The accompanying notes are an integral part of the financial statements.



MONTGOMERY COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
Fiscal Year Ended June 30, 2001  
(Continued)

General Fund Type	Special Revenue Fund Type				
Local Government Economic Assistance Fund	Finneran Fund	Health and Civic Center Fund	Emergency Food and Shelter Fund	Juvenile Justice Fund	Revolving Loan Fund
\$ 79,132	\$ 5,091	\$ 150,786	\$ 12,089	\$ 16,420	\$ 77,617
		50,000		43,165	
\$ 79,132	\$ 5,091	\$ 200,786	\$ 12,089	\$ 59,585	\$ 77,617
\$ 79,132	\$ 3,518	\$ 271,264	\$ 12,089	\$ 59,585	\$ 23,175
\$ 79,132	\$ 3,518	\$ 271,264	\$ 12,089	\$ 59,585	\$ 23,175
\$ 0	\$ 1,573	\$ (70,478)	\$ 0	\$ 0	\$ 54,442
	84,300	234,604			168,740
\$ 0	\$ 85,873	\$ 164,126	\$ 0	\$ 0	\$ 223,182

The accompanying notes are an integral part of the financial statements.

MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Montgomery County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Montgomery County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Montgomery County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Montgomery County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Montgomery County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund (LGEA).

MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Finneran Fund, the Health and Civic Center Fund, the Emergency Food and Shelter Fund, the Juvenile Justice Fund, and the Revolving Loan Fund of the Fiscal Court are reported as Special Revenue Fund Types.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Montgomery County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Notes Receivable

The county loaned \$600,000 to Thornberry Enterprises Inc. on September 22, 1994, for the purpose of constructing a wood products manufacturing facility. Terms of the agreement stipulate a ten-year repayment schedule at 3.0 percent interest. Thornberry Enterprises Inc. is in substantial compliance with the terms of the agreement. As of June 30 2001, the principal balance due was \$381,322.

MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 5. Long-Term Jail Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issued revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$3,980,885 of revenue bonds at various interest rates, of which the county has agreed to pay \$961,340 principal and a proportional share of interest on the issue. Revenue bonds outstanding as of June 30, 2001, totaled \$675,639.

<u>Due Date</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2001-2002	\$ 41,847	\$ 31,389
2002-2003	39,793	33,379
2003-2004	37,610	35,496
2004-2005	35,287	37,747
2005-2006	32,818	40,140
2006-2014	154,818	497,488
Totals	<u>\$ 342,173</u>	<u>\$ 675,639</u>

Note 6. Lease-Purchase Agreement

The county entered into a lease purchase agreement on June 2, 1995, with the Kentucky Association of Counties Leasing Trust for renovation of the courthouse annex. The original principal was \$750,000. On May 7, 2001, the lease purchase agreement was restructured. The new lease stipulates a term of 4 years and an interest rate of 3.56%. The lease will terminate January 20, 2005. The principal outstanding as of June 30, 2001 is \$336,000.

<u>Due Date</u>	<u>Scheduled Principal</u>
2001-2002	\$ 79,000
2002-2003	82,000
2003-2004	86,000
2004-2005	89,000
Totals	<u>\$ 336,000</u>

MONTGOMERY COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2001  
(Continued)

Note 7. Insurance

For the fiscal year ended June 30, 2001, Montgomery County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

The Montgomery County Jail Canteen Fund had a beginning balance of \$34,065 with total receipts of \$235,528 and expenditures of \$251,371 leaving an ending balance of \$18,222 at June 30, 2001. All profit expenditures were for the benefit and/or recreation of the inmates.

COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE





MONTGOMERY COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 4,590,339	\$ 3,853,154	\$ (737,185)
Road and Bridge Fund	1,546,136	1,061,021	(485,115)
Jail Fund	1,600,915	1,143,603	(457,312)
Local Government Economic Assistance Fund	86,742	79,132	(7,610)
<u>Special Revenue Fund Type</u>			
Finneran Fund	4,650	5,091	441
Health and Civic Center Fund	245,000	150,786	(94,214)
Emergency Food and Shelter Fund	12,090	12,089	(1)
Juvenile Justice Fund	100,000	16,420	(83,580)
Revolving Loan Fund	73,323	77,617	4,294
Totals	<u>\$ 8,259,195</u>	<u>\$ 6,398,913</u>	<u>\$ (1,860,282)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 8,259,195
Add: Budgeted Prior Year Surplus			2,198,000
Less: Other Financing Uses			<u>(2,167,598)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 8,289,597</u>

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SCHEDULE OF OPERATING REVENUE



MONTGOMERY COUNTY  
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

	<u>GOVERNMENTAL FUND TYPES</u>		
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type
REVENUE:			
Taxes	\$ 3,011,340	\$ 3,011,340	\$
Excess Fees	161,996	161,996	
License and Permits	79,733	79,733	
Intergovernmental Revenues	2,640,375	2,510,322	130,053
Charges for Services	87,525	73,841	13,684
Miscellaneous Revenues	252,461	157,493	94,968
Interest Earned	165,483	142,185	23,298
Total Operating Revenue	<u>\$ 6,398,913</u>	<u>\$ 6,136,910</u>	<u>\$ 262,003</u>

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COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

MONTGOMERY COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,931,749	\$ 1,456,984	\$ 474,765
Protection to Persons and Property	1,371,202	1,317,143	54,059
General Health and Sanitation	168,058	168,531	(473)
Social Services	63,000	59,863	3,137
Recreation and Culture	75,000	67,355	7,645
Transportation Facilities and Services	25,000	1,922	23,078
Roads	1,380,378	1,464,324	(83,946)
Airports	25,000	25,000	
Debt Service	7,160	59,017	(51,857)
General Services	129,350	96,928	32,422
Contingent Appropriations	847,163		847,163
Capital Projects	117,974		117,974
Distribution to Other Government Agencies	720,000	831,433	(111,433)
Administration	600,500	565,611	34,889
 Total Operating Budget - General Fund Type	 \$ 7,461,534	 \$ 6,114,111	 \$ 1,347,423
Other Financing Uses:			
Borrowed Money-			
Kentucky Advance Revenue Program - Principal	2,070,000		2,070,000
Annex Capital Lease Agreement- Principal on Lease	69,840	63,151	6,689
Jail Participation Agreement- Principal	27,758	29,517	(1,759)
 TOTAL BUDGET - GENERAL FUND TYPE	 \$ 9,629,132	 \$ 6,206,779	 \$ 3,422,353



MONTGOMERY COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 Fiscal Year Ended June 30, 2001  
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 100,000	\$ 59,585	\$ 40,415
General Health and Sanitation	223,000	258,286	(35,286)
Social Services	12,090	12,089	1
Capital Projects	400,373		400,373
Interest		3,518	(3,518)
Administration	92,600	36,153	56,447
<b>TOTAL BUDGET - SPECIAL REVENUE FUND TYPE</b>	<b>\$ 828,063</b>	<b>\$ 369,631</b>	<b>\$ 458,432</b>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable B. D. Wilson, Montgomery County Judge/Executive

Members of the Montgomery County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Montgomery County, Kentucky, as of and for the year ended June 30 2001, and have issued our report thereon dated February 20, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Montgomery County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying comment and recommendation.

- The County Should Improve Internal Controls Over Insurance Coverage And Comply With State And Federal Tax Laws

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montgomery County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Montgomery County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying comment and recommendation.

- The County Should Improve Internal Controls Over Insurance Coverage And Comply With State And Federal Tax Laws

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
February 20, 2002

COMMENT AND RECOMMENDATION





MONTGOMERY COUNTY  
COMMENT AND RECOMMENDATION

Fiscal Year Ended June 30, 2001

REPORTABLE CONDITION AND NONCOMPLIANCE

The County Should Improve Internal Controls Over Insurance Coverage And Comply With State And Federal Tax Laws

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The Fiscal Court did not maintain adequate internal controls over health insurance coverage and did not comply with certain state and federal tax laws. Procedures performed for a three month period revealed that 24 employees who were no longer employed by the county were still covered under the county's health insurance policy and that neither state nor federal tax withholdings were paid timely. KRS 141.330 and the Internal Revenue Code require an employer to pay tax withholdings on a timely basis and allow for penalties and interest for failure to pay timely. We recommend the County Treasurer routinely compare employee payroll records to insurance policies to verify who should be covered by the insurance policy. We also recommend the County Treasurer compare payroll withholding records to withholding tax disbursements to ensure compliance with the requirements of KRS 141.330 and the Internal Revenue Code. In addition, we recommend the County Judge/Executive or the members of the Fiscal Court periodically determine that health and life insurance policies accurately list those that should be covered and that payroll taxes are being paid on a timely basis.

*County Judge/Executive B. D. Wilson's Response:*

*All insurance coverage has been addressed and corrections made. Administrative Assistant will review employee listing and insurance bills quarterly to determine correctness. Federal and state taxes will be paid on time in the future. Former County Treasurer was responsible for all the above findings. New County Treasurer will comply with all recommendations.*

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CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MONTGOMERY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

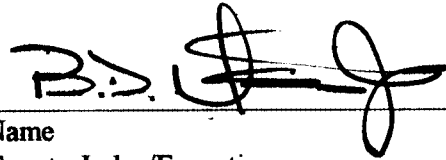
Appendix A



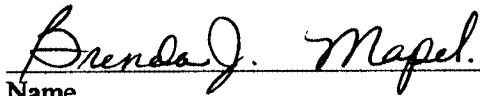
**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**MONTGOMERY COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2001**

The Montgomery County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to be "B.D. [unclear]", written over a horizontal line.

Name  
County Judge/Executive

A handwritten signature in black ink, "Brenda J. Mapel.", written over a horizontal line.

Name  
County Treasurer